

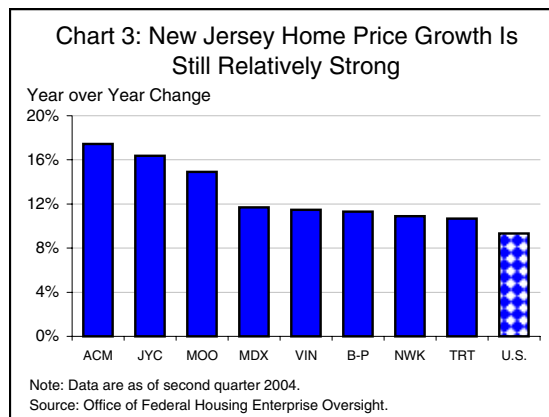
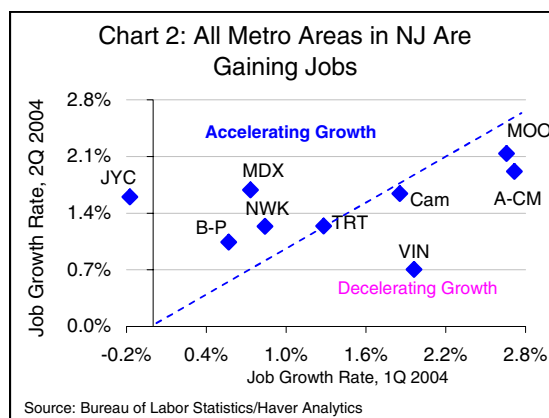
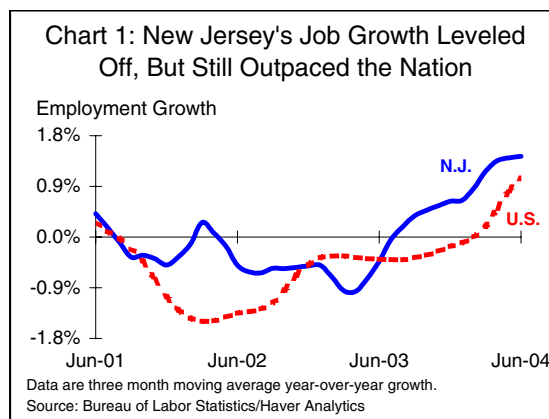
# FDIC State Profile

Fall 2004

## New Jersey

The New Jersey economy continued to grow and job creation was widespread across the state.

- Employment performance in New Jersey has exceeded the nation since the second half of 2003, though the pace of job growth leveled off in second quarter 2004 (See Chart 1). Hiring was strongest in state and local government sectors, as well as in professional services.
  - All of the state's metropolitan statistical areas (MSA) added jobs, though many grew at a slower pace than the previous quarter (See Chart 2).<sup>1</sup> Although easing, job growth was highest in **Monmouth-Ocean** and **Atlantic-Cape May**, in part reflecting a strengthening New York City economy.
  - Competition for the Atlantic City gaming dollar will increase with the approval of slot-based gaming in neighboring Pennsylvania. As much as 25 percent of Atlantic City's visitors are from PA, and new slots in that state could also siphon Atlantic City clients from Maryland, Delaware, and possibly New Jersey. Estimates suggest that Atlantic City's gaming revenues could decline by as much as 7 percent because of this new source of competition.
- Home price appreciation remains strong.**
- Home price appreciation across New Jersey remained high at an annual rate of 12.8 percent, which placed it eighth among the fifty states in second quarter 2004. Price appreciation was generally higher among areas with the greatest job growth (See Chart 3). Second home purchases spurred much of the growth in Atlantic-Cape May and Monmouth-Ocean. Net inward migration and structural rigidities, like zoning restrictions and lack of developable land, have also contributed to strong home price trends.
  - The northern New Jersey office market improved slightly in second quarter 2004, as the vacancy rate dropped to 15.6 percent from the previous quarter. The Middlesex MSA vacancy rate remained high at 21.6 percent, as much of the area's telecom space remained empty.



<sup>1</sup>New Jersey's MSAs are abbreviated as follows: Atlantic-Cape May, A-CM; Bergen-Passaic, B-P; Jersey City, JYC; Middlesex-Somerset-Hunterdon, MDX; Monmouth-Ocean, MOO; Newark, NWK; Trenton, TRT; Vineland-Millville-Bridgeton, VIN.

## State Profile

### Profitability reported by FDIC-insured institutions headquartered in New Jersey was stable in second quarter 2004.

- New Jersey's median return-on-assets was unchanged in second quarter 2004, largely the result of a stable net interest margin.<sup>2</sup> Bank asset yields may increase in coming quarters reflecting higher market interest rates. However, a high percentage of New Jersey's banks, 41 percent, are residential mortgage lenders, which may benefit less from higher interest rates. Residential lenders typically have a larger share of fixed rate earning assets than do other banks.<sup>3</sup>

### Funding costs stabilized in second quarter 2004, stopping a 3 ½ year decline.

- The median cost of funds for FDIC-insured institutions headquartered in New Jersey bounced off record lows in second quarter 2004. An increasing and comparatively larger share of New Jersey's insured institutions report higher funding costs during the quarter when compared with the nation (See Chart 4). This trend reflects the increase in short-term market interest rates and New Jersey's highly competitive deposit market.
- Bank deposit pricing usually lags increases in market interest rates; but more banks likely will experience increased funding costs in future quarters as short-term market interest rates are above year-ago levels.

### New Jersey's credit quality remains among the best in the nation.

- The median past-due loan ratio for all of New Jersey's insured institutions at 0.69 percent is sixth lowest among U.S. states and the District of Columbia. Past-due loan rates were very favorable across loan categories, reflecting the low interest rate environment, the state's positive employment trend, strong housing markets, and overall favorable economic performance.

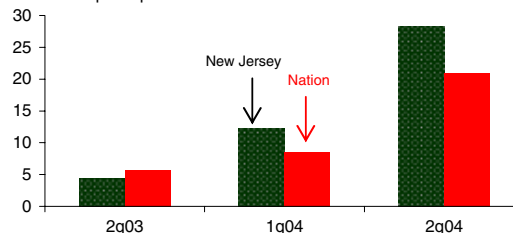
### Small business lending may be poised to grow.

- Consistent with national trends, growth in small commercial and industrial (C&I) loans among New Jersey's community banks has been modest in recent years.<sup>4</sup> The consumer-led recovery and very strong housing markets throughout much of the state have accompanied comparatively higher growth in construction and home equity loans compared with small C&I loans (See Chart 5).

- However, prospects for increased C&I lending nationwide are improving, evidenced by expanding business investment and rising optimism among small business owners. Should the residential lending boom wane with rising interest rates, banks may look to C&I lending for growth. For discussion of nationwide C&I lending trends, see *FDIC Outlook, Fall 2004*.

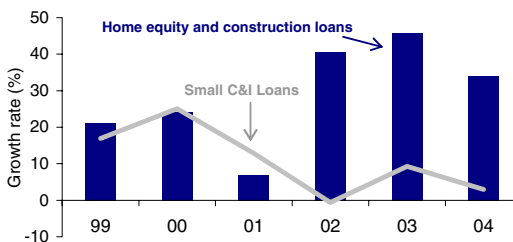
**Chart 4: An Increasing Share of New Jersey's Insured Institutions Report Higher Cost of Funds**

Percent of insured institutions reporting increased cost of funds versus the prior quarter



Note: Excludes banks less than three years old and credit card specialists  
Source: FDIC

**Chart 5: Small Business Loan Growth Has Moderated as Housing Has Taken Center Stage**



Note: Data for insured institutions with total assets less than \$1 billion, excluding credit card banks and banks less than three years old. Small C&I Loans are loans with original amounts below \$250 thousand. Data as of June 30th.  
Source: FDIC

<sup>2</sup>Includes FDIC-insured institutions headquartered in New Jersey excluding banks less than three years old and credit card banks, unless otherwise noted.

<sup>3</sup>"Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in the total of one-to-four family mortgage loans and mortgage backed securities.

<sup>4</sup>"Community banks" are defined as insured institutions that hold less than \$1 billion in total assets. This definition excludes credit card banks and banks less than three years old.

## State Profile

### New Jersey at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	142	147	153	151	149
Total Assets (in thousands)	156,961,768	146,131,061	127,334,658	111,729,706	160,260,179
New Institutions (# < 3 years)	4	11	21	29	23
New Institutions (# < 9 years)	42	43	43	43	36
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.49	8.86	9.70	10.54	9.64
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	0.69%	0.77%	0.93%	0.83%	0.88%
Past-Due and Nonaccrual >= 5%	4	4	6	8	8
ALLL/Total Loans (median %)	1.01%	1.04%	0.98%	0.96%	0.90%
ALLL/Noncurrent Loans (median multiple)	2.88	2.50	2.17	2.11	1.95
Net Loan Losses/Loans (aggregate)	0.10%	0.13%	0.24%	0.23%	0.29%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	9	14	21	26	23
Percent Unprofitable	6.34%	9.52%	13.73%	17.22%	15.44%
Return on Assets (median %)	0.85	0.82	0.83	0.66	0.78
25th Percentile	0.55	0.46	0.52	0.26	0.42
Net Interest Margin (median %)	3.51%	3.60%	3.73%	3.51%	3.74%
Yield on Earning Assets (median)	4.97%	5.35%	6.22%	7.13%	7.33%
Cost of Funding Earning Assets (median)	1.43%	1.78%	2.39%	3.70%	3.62%
Provisions to Avg. Assets (median)	0.06%	0.07%	0.10%	0.08%	0.07%
Noninterest Income to Avg. Assets (median)	0.31%	0.35%	0.38%	0.37%	0.38%
Overhead to Avg. Assets (median)	2.56%	2.65%	2.79%	2.83%	2.72%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	71.03%	66.22%	69.23%	69.75%	71.25%
Loans to Assets (median %)	59.13%	56.58%	57.40%	58.23%	58.77%
Brokered Deposits (# of Institutions)	22	21	18	12	12
Bro. Deps./Assets (median for above inst.)	3.00%	3.71%	5.43%	11.54%	1.42%
Noncore Funding to Assets (median)	16.38%	15.42%	14.94%	13.74%	13.79%
Core Funding to Assets (median)	71.83%	73.07%	73.98%	73.08%	74.05%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	50	51	52	51	47
National	21	22	24	24	25
State Member	5	6	6	5	5
S&L	9	11	11	11	13
Savings Bank	32	31	34	34	31
Stock and Mutual SB	25	26	26	26	28
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Newark NJ PMSA	30	15,859,004	21.13%	10.10%	
Bergen-Passaic NJ PMSA	26	55,466,252	18.31%	35.34%	
Philadelphia PA-NJ PMSA	22	26,362,552	15.49%	16.80%	
Middlesex-Somerset-Hunterdon NJ PMSA	19	24,538,189	13.38%	15.63%	
Jersey City NJ PMSA	11	17,730,108	7.75%	11.30%	
Trenton NJ PMSA	10	6,312,088	7.04%	4.02%	
Monmouth-Ocean NJ PMSA	10	4,265,171	7.04%	2.72%	
Atlantic-Cape May NJ PMSA	9	2,633,767	6.34%	1.68%	
Vineland-Millville-Bridgeton NJ PMSA	5	3,794,637	3.52%	2.42%	